



# This Week In Petroleum

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## Is The Sky Falling?

With the near-month futures price of light, sweet crude oil dropping by about \$5 per barrel in recent days, those interested in seeing high oil prices might be quoting that famed childhood philosopher, Chicken Little, in worrying that the sky is falling. This perspective may seem strange to most consumers, who are more focused on rising gasoline prices. Like some other industry analysts, the Energy Information Administration (EIA) believes that both crude oil and gasoline prices are likely to remain at historically high levels in nominal terms. EIA's latest forecast projects crude oil prices above \$50 per barrel for the rest of 2005 and 2006, as reported in the April *Short-Term Energy Outlook*.

During the first quarter of 2005, West Texas Intermediate (WTI) crude oil near-month contract futures prices averaged \$49.77 per barrel, rising nearly \$14 per barrel over the 3-month period. Higher crude oil prices over this period reflected, in part, market expectations of robust world demand, limited increases in non-Organization of Petroleum Exporting Countries (OPEC) production, and uncertainty about crude oil supplies from continuing volatile situations in Iraq, Nigeria, and Venezuela. Traders and oil market analysts seemed focused on the latter part of 2005, projecting continued strong demand growth with very little spare production capacity available. Nevertheless, since their April 1st peak, crude oil prices have tumbled more than 9 percent to \$51.86 per barrel by April 12, 2005.

The close of the heating season, following a period of colder-than-normal March weather throughout the Northern Hemisphere, has shifted the focus of market attention from distillate fuel stocks, which face significant challenges this summer if they are to rebuild to normal levels ahead of next winter, to U.S. gasoline markets. Recent EIA weekly data ( *Weekly Petroleum Status Report*) show ample gasoline inventories and strong gasoline production as refineries emerge from turnarounds. In addition, petroleum markets have begun to focus on high and still rising U.S. crude oil stocks, which along with comfortable levels in Europe, provide evidence of high production by OPEC members. If OPEC producers continue to expand production in line with their stated intent, U.S. crude oil imports could remain high enough to minimize summer crude draws, as refineries increase throughputs and maximize gasoline production. Although the evidence is sketchy at best, Asian oil demand showed some signs of weakening in the first quarter of 2005, which if continued, could relieve some of the market pressure anticipated later this year. A scenario of this type may have motivated a reported increase in selling activity by both commercial (those in the oil industry) and non-commercial (typically hedge funds, pension funds, investment banks and other parties not directly related to the oil industry) traders of crude oil futures contracts on the New York Mercantile Exchange (NYMEX), which itself may have added to recent downward pressure to oil prices.

Notwithstanding recent price developments, EIA's assessment of the outlook through the balance of 2005 expects markets to remain relatively tight. Particularly for gasoline supplies, refiners will need to be adept in matching expected strong demand through increased production, larger import volumes, and/or drawing upon inventories. For example, if refiners produce less gasoline in the near-term and rely more on inventories and imports to meet potentially robust gasoline demand, the stage could be set for a second wave of higher gasoline and crude oil prices later this summer. Conversely, if petroleum

markets remain relatively balanced through the summer driving season, prices could remain relatively stable. Regardless, as of now, EIA does not foresee a sustained crude oil price below \$50 per barrel in the near future.

### U.S. Average Retail Gasoline Price Increases Another 6 Cents

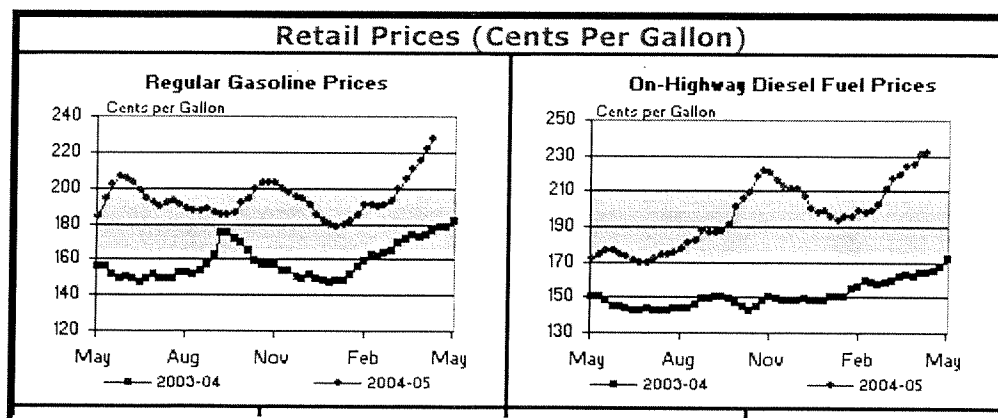
The U.S. average retail price for regular gasoline increased this week by 6.3 cents from the previous week to reach 228.0 cents per gallon as of April 11, 49.4 cents higher than this time last year. Prices have increased by 38.2 cents since February 14, and this is the fourth week in a row that prices have reached an all-time high (when not adjusted for inflation). Prices rose throughout the country, with the West Coast seeing the largest regional increase of 13.0 cents to reach 252.8 cents per gallon, remaining the highest regional price in the country and becoming the first regional price in history to top the \$2.50 per gallon mark. Prices in California gained 12.8 cents to 259.2 cents per gallon. Retail prices on the East Coast gained 4.8 cents to 223.3 cents per gallon, which is 49.3 cents higher than last year.

Retail diesel fuel prices gained 1.3 cents last week to 231.6 cents per gallon, reaching a new nominal high for the fourth week in a row (when not adjusted for inflation). Prices were up throughout the country, with the West Coast gaining 4.4 cents to average 258.5 cents per gallon. Average diesel fuel prices in California also rose by 4.4 cents to reach 262.5 cents per gallon, which is 46.3 cents higher than this time last year.

### Propane Reports Weekly Build

The first week of the traditional build season (April through September) saw U.S. inventories of propane increase by 1.0 million barrels, and ended the week of April 8, 2005 at an estimated 27.8 million barrels. With the arrival of warmer weather, propane stockholders should expect inventories to start showing consistent weekly gains as the build season finally begins in earnest. Propane imports were particularly strong last week at 267 thousand barrels per day, while production remained relatively unchanged at 1.1 million barrels per day. Regional inventories were mixed last week with gains in the East Coast and Gulf Coast of 0.1 million barrels and 1.2 million barrels, respectively, while the Midwest reported a 0.4-million-barrel drop during this same period. The combined Rocky Mountain/West Coast regions remained unchanged at 0.5 million barrels last week. Propylene non-fuel use inventories also remained unchanged last week at 4.7 million barrels but accounted for a slightly lower 16.9 percent share of total propane/propylene inventories, compared with the prior week's 17.5 percent share.

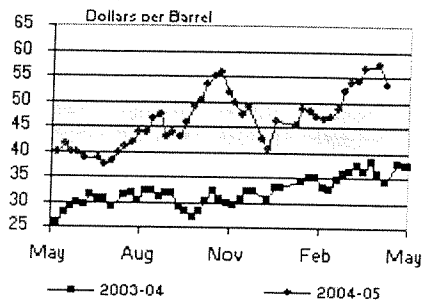
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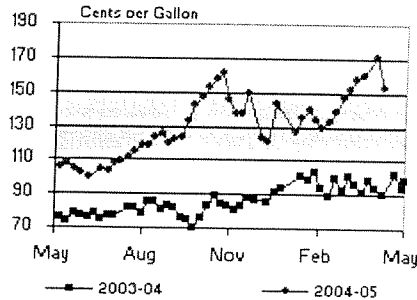
Retail Data		Changes From		Retail Data		Changes From	
04/11/05		Week	Year	04/11/05		Week	Year
Gasoline	228.0	↑ 6.3	↑ 49.4	Diesel Fuel	231.6	↑ 1.3	↑ 63.7

### Spot Prices (Cents Per Gallon)

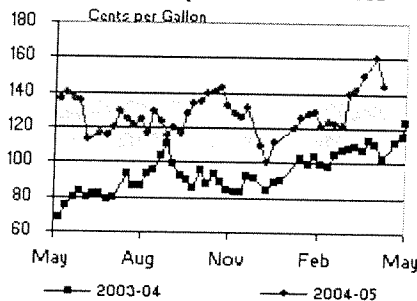
**Spot Crude WTI Prices**



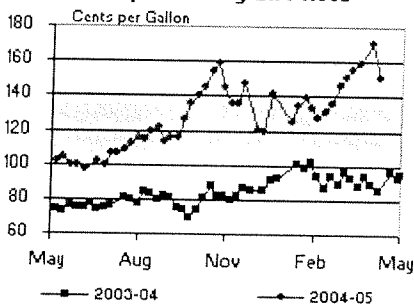
**New York Spot Diesel Fuel Prices**



**New York Spot Gasoline Prices**



**New York Spot Heating Oil Prices**



**Spot Data**

**Changes From**

04/08/05

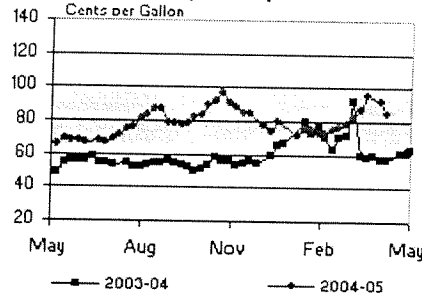
Week

Year

Crude Oil WTI	53.46	↓ -3.80	NA
Gasoline (NY)	143.8	↓ -16.6	NA
Diesel Fuel (NY)	153.2	↓ -17.9	NA
Heating Oil (NY)	150.7	↓ -19.4	NA
Propane Gulf Coast	84.6	↓ -7.3	NA

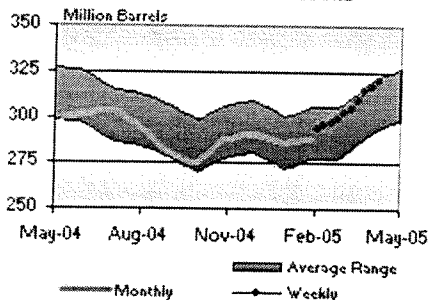
**Note:** Crude Oil WTI Price in Dollars per Barrel.

**Gulf Coast Spot Propane Prices**

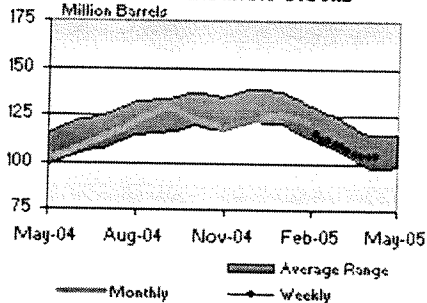


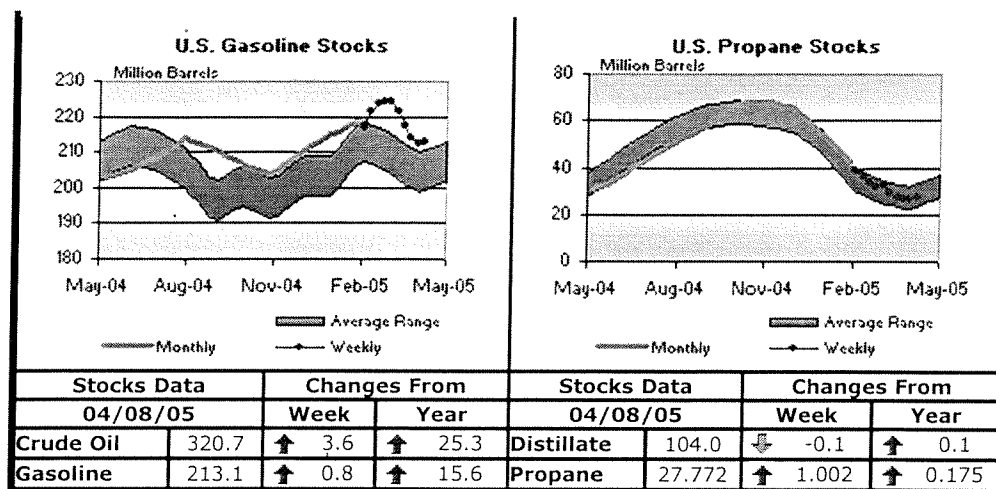
### Stocks (Million Barrels)

**U.S. Crude Oil Stocks**



**U.S. Distillate Stocks**





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